

THE RISE OF AMAZON AND ITS EFFECT ON THE UNIVERSITY CO-OP'S STRATEGY

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ABSTRACT

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The University Co-op and college bookstores in The United States have suffered dramatically due to the increasingly competitive textbook industry and changing consumer preferences. The purpose of this paper is to analyze the importance of college bookstores to the students, faculty, and alumni on a college campus. This paper also reviews alternative methods for students to purchase class materials and gear such as online through Amazon. This topic matters because The University Co-op has donated millions of dollars back to The University of Texas at Austin. If the Co-op can return to successful profit levels it experienced five-ten years ago, the university would benefit greatly through its donations.

Interviewing members of The Co-op Leadership Team, surveying students, reviewing academic articles, and online research, created the most reliable data for this paper. Through these methods, I was able to gather information to determine how The Co-op can battle the ongoing threats it currently faces such as, decreased revenue and profit levels, struggle with its image on campus, recent CEO change, and Supply Chain issues. Finally, I analyzed whether or not college bookstores are necessary on college campuses nationwide, and if so, what their role should be.

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Introduction

The University Co-op (“The Co-op”) has provided roughly \$30 million worth of funding to the University of Texas at Austin for the well being of students, faculty, administration, and athletic programs since the turn of the century. The Co-op has been a major partner of the university for more than 120 years, yet it still has a poor reputation among many students, faculty, staff, and administrators. These people believe that the Co-op is trying to boost margins by raising prices. However, many students and faculty members are unaware of The University Co-op’s true intentions and values. The University Co-op is a private, not-for-profit organization that donates most of its net proceeds back to The University of Texas in the form of grants, scholarships, awards, and other gifts. However, after working with the Co-op for almost three years, it has become apparent that The Co-op is misunderstood by much of its customer base.

As a smaller, private company, The University Co-op lacks the resources that many of its competitors have. One of The Co-op’s largest competitors is Amazon.com, Inc. (“Amazon”). Amazon is an American electronic commerce and cloud computing company that only has a small stake in goods that would compete with college bookstores. However, with more than a \$400B market capitalization (insert formula for market cap) Amazon has the resources to provide low cost options for many items over the Internet, including textbooks. I believe that many students disregard all factors except cost when it comes to choosing a textbook

provider. This would help explain the more than 40% decrease in textbook sales The University Co-op has experienced over the last 10 years.

Purpose of This Thesis

I am writing this paper to analyze the importance of college bookstores to the students, faculty, and alumni on college campuses. I also plan to analyze alternatives, like online shopping through Amazon, to understand the motivations behind students' lack of desire to support their campus bookstore. This is an important issue because The University Co-op has donated millions of dollars back to the University of Texas at Austin and has suffered recently due to both external and internal factors. If the Co-op can return its profits to the level of just 10 years ago, the university would benefit greatly from increased donations.

By writing this paper, I would I would like to determine whether or not The University Co-op is a necessary asset for The University of Texas and its students and faculty. More broadly, I would like to analyze the role of the college bookstore on college campuses across the United States of America. If this dynamic is happening at a flagship university such as The University of Texas at Austin, then it is likely occurring nationwide. I believe that The University Co-op can be a great shopping destination and social gathering spot for Longhorns. My hypothesis is The University Co-op will function more efficiently with a detailed strategy to combat competitors. It must also improve its relationship with the student body, faculty members, and the administration. If the Co-op can achieve these strategic priorities

and return to strong profit levels, it will be able to provide funds to students, faculty, and staff to become a focal point for all fans of The Texas Longhorns.

Full Disclosures and Limitations of this Study

My desire to write this thesis comes from my work with The University Co-op during the 2014-2015 and 2015-2016 school years. I was elected to the University Co-op Board of Directors by the University of Texas student body to serve students faculty, and staff over a two-year term. I attended monthly board meetings to review financial statements, inventory reports, and strategic initiatives. I worked with many impressive faculty members, independent directors, and other students to create a sound business plan for The University Co-op. Our duty was to work with the Co-op staff, other faculty members, and other students across campus to ensure a financially sound business plan for the University Co-op. During my tenure, I served on the Student Requests Committee, Management Compensation Committee, Election Committee, and Executive Search Committee. During my two years of service, I was part of the team that awarded over \$100,000 worth of scholarships, grants and funding to individuals and campus organizations yearly.

My role as a Board Member gives me a good understanding of the college bookstore industry and The Co-op's specific situation. However, this role has affected my ability to be completely unbiased while performing further research and analyzing this topic further. After spending more than 50% of my college career trying to improve The University Co-op's operations, I have inherently become emotionally attached to The Co-op and desire to see it succeed. The biases that I

have toward The Co-op limit my ability to view this project as a completely objective researcher.

My thesis advisor, Dr. Michael Hasler, has served as the Chairmen for The University Co-op Board of Directors. Both Dr. Hasler and I were involved in the hiring of new CEO Ms. Phifer in February 2016. We want Ms. Phifer to succeed as this makes us look good. This is one of the many biases that will affect our ability to objectively work to an unbiased finish product. I will also interview Dr. Hasler on many important issues regarding the University Co-op. His role as my advisor could cause him to give me biased answers and call into question the authenticity of the paper. However, both Dr. Hasler and I will work to remain professional and remember the role we must take during different conversations.

Background

In the retail industry, the primary goal is to provide your consumers with the best products and services possible. Retailers can achieve this feat by offering superior products, low costs, customized solutions, or any combination of the three. Deciding what your consumer base wants will be the main driver for determining a strategy, the most important factor for a retailer. Companies employ different types of strategies with the goal of reaching desired margins. Both public and private companies intend to maximize stakeholder value. Not-for-profit firms attempt to maximize its contributions to those that it serves. In this chapter I plan to define strategy and apply this definition to both Amazon and The University Co-op. Then, I will offer ways that The University Co-op can combat Amazon's strategy and thrive in an otherwise tumultuous market. The University Co-op must change its strategy to appeal to Longhorns or it will lose important market share to bigger corporate competitors like Amazon.

Strategy Defined

In order to understand how retailers will attempt to solve their issues, one must be able to understand the concept of strategy. Robert Dorff defines strategy as "the relationship among ends, ways, and means" in his essay, *A Primer in Strategy Development*. He describes, "Ends are the objectives or goals desired. Means are the resources available to pursue those objectives. Ways (methods) are how one organizes and applies the resources" (Dorff). This definition of strategy certainly applies to how companies like Amazon and The Co-op tackle their problems.

Retailers have goals that they would like to achieve. Many goals have time constraint so the company can create new goals and evolve over time. Most of these objectives are financial. Firms, both not-for-profits and for-profits, are unable to operate without sufficient funds. However, many retailers have non-financial goals that are social or service orientated. A firm may use objectives like these either to improve its overall image, or because they have a genuine interest in enriching the lives of its customers or those they serve. As long as the primary objectives are both attainable and meaningful, completion of them should lead to growth in the company.

The means of retailers can come from many different areas. The most obvious resources are assets on the balance sheet. A liquid company with a strong relative balance sheet is able to pursue more opportunities than a company with a weaker one. Another important mean for retailers is its employees. The utilization of executive staff members all the way down to cashiers is imperative to keeping customers in the stores and buying your merchandise. With a strong executive staff paving the way and a friendly, effective group at the point of sale, a retailer is well positioned to succeed.

The ways a company organizes and applies its resources are often the most important aspect for retailers. Firms can choose to utilize marketing through advertisements, deals, social events, or through organic measures like newspaper articles. They can invest their funds in financial markets or back into their own company. A company that invests in itself can come out with a new product line, expand the amount of stores over multiple geographic locations, or enter a whole

new market. Retailers that are able to get the most out of their resources will see long-term growth and sustainability.

Amazon

A company that has employed an effective strategy for more than twenty years is Amazon. Amazon was founded in 1994 when Jeff Bezos discovered an opportunity to enter the booming Internet market with an online retail store. Amazon began creating an effective strategy from the very start. Every factor of beginning this now multi-billion dollar corporation was intentional, strategic, and popular with consumers.

Figure 1



Bezos chose the name Amazon because it was a place that was exotic and different like he planned for his e-store to be over two decades ago. The Amazon River, its clear namesake, is also the biggest river in the world, as Bezos prophesized his store would become. The Amazon logo (seen above in Figure 1) incorporates an arrow from the letter “A” to the letter “Z” as a symbol that Amazon would eventually provide products for purchase from “A-Z”. Bezos was aware that his business model would be easy to recognize and replicate. However, he believed that if it were able to be an effective first mover, Amazon would be able to exist as the industry leader for decades. Bezos was right.

Amazon (AMZN) is now one of the largest companies in the world with a market capitalization of more than \$435B in April 2017. It has increased its stock price dramatically since its IPO (Initial Public Offering) in 1997. In fact, a mere \$1000 investment at the IPO date would have been worth roughly \$500,000 in December 2016. This meteoric rise represents the industry leader over the past few decades. Amazon has achieved this remarkable growth due to precise utilization of its effective strategy.

Amazon has a vague, but meaningful mission statement. "Our vision is to be earth's most customer centric company; to build a place where people can come to find and discover anything they might want to buy online". This is a good mission statement because it has no need to change over time and it accurately reflects the company's purpose and company values. The company originated as an online bookstore but has expanded its product line to include about anything that can be sold.

Amazon is unique because many people would consider them a mature company. It is the clear e-commerce industry leader and boasts remarkable revenues. However, its goals are more in line with a growth company. It continues to reinvest its revenues to increase its share in all different types of markets. In fact, Amazon did not begin to make considerable profits until 2013. Amazon highly favored growth while shunning profits for the first 15 years of its existence. Although unconventional and unprecedented at this scale, Amazon's strategy has proven to be extremely effective. It has done more than accomplish its superordinate goal of maximizing the value for its shareholders and other investors.

Amazon has had to find the perfect way to use its means to create the empire it has built. First, the executive staff led by CEO Jeff Bezos has emphasized growth. He has built the company into one that now employs nearly 250,000 people across the globe. It has made strategic acquisitions over time, such as fashion industry leader, Zippos, to grow its asset base. Amazon has recently opened brick and mortar stores in addition to its incredible online presence. Financially, Amazon is in great shape. It has roughly \$86 billion in assets and its 2016 revenue exceeded \$135 billion. With this balance sheet, Amazon is able to hire specialized staff from strategy builders to gizmo gurus. Amazon has succeeded due to the way it has used these resources over the last few decades.

Amazon has an interesting way of managing its staff. Information is shared on a need-to-know basis and it rarely has large meetings. Bezos is famous for instituting “a two pizza” rule for his meetings. Bezos feels that large meetings are useless especially if people are bored and do not want to be there. So he only calls meetings when they are imperative and motivates those to attend with pizza. However, he does prefer small meeting groups. Therefore, he believes that there should never be meetings where two pizzas couldn’t feed the entire group. This is just one of the many small ways that Bezos has made Amazon employees get the most out of their time.

Amazon’s assets have also been used in a remarkable way. They are constantly being used to reinvest in efforts to continue Amazon’s astronomical growth. Amazon began as an online book vendor. It has diversified to sell DVD’s, CD’s, online media, video games, apparel, furniture, food, toys, jewelry, on demand

service, and consumer electronics. It has famous products like the Kindle and Fire tablets. Amazon has Prime accounts where users have access to special deals and quick shipping. It has recently tapped into the cloud computing industry with great success as well as on demand delivery service through Amazon Prime Now. Perhaps its most interesting expansion is Amazon Lockers. These stores allow people to pick up their Amazon packages at a Locker and bypass the delivery process altogether. Amazon is placing lockers on college campuses across the country. This is making it even more difficult for college bookstores and retailers to keep their doors open.

Amazon has already targeted the University of Texas at Austin as a venue to place a new Amazon Locker. The Locker provides another avenue for Amazon to steal more market share from the University Co-op. The rise of Amazon has been a main factor for the Co-op's 70% decrease in textbook sales over the last decade. The Locker. It is conveniently placed in Gregory Gymnasium and has the potential to be the main stop for textbooks on campus. Amazon has done this because many UT students use its website for textbooks and other services. Amazon has done a great job of targeting the younger market. Its consumer base consists of anybody that feels the urge to buy anything, therefore virtually everyone. It is specifically targeting college students because they have the highest need for textbooks and other products Amazon sells. More importantly, this segment of the population will be in the work force in a few short years. Amazon feels that if it can capture this demographic now, they will spend even more with Amazon after they are employed and out of the watchful eye of their parents.

Amazon smartly offers six months free and then discounts its popular Amazon Prime service for college students. After students are hooked on Amazon Student, they will continue to use the service after graduation. The University of Texas at Austin has students that love this service. This group finds it to be cheaper and more convenient for their specific needs. Amazon Student and the Amazon Locker pose serious threats to the University Co-op's survival.

The University Co-op

The Amazon Locker at the University of Texas at Austin will compete most directly with the University Co-op. The University Cooperative Society has been a trademark for more than 120 years. The Co-op is the main stop for everything that is Longhorn merchandise and has sold textbooks and supplies to students since its founding in 1896. It is recognized as an affiliate of The University of Texas at Austin by the UT legal staff. The University Co-op is a private not-for-profit retailer with 501c (3) tax-exempt status. Proceeds, net those retained by the management of The Co-op for upkeep and investment in the business, are donated back to the university and its members in the form of grants, scholarships, awards, and rebates. The members of the University Co-op are students, faculty, alumni and fans. The Co-op has given almost \$30 million worth of awards since the turn of the century. This makes them one of the most generous institutional donors of the past 15 years. It is even more remarkable given that it comes from a not-for-profit organization.

The University Co-op reached record highs for revenue from 2004-2010. The football team was performing at a high caliber and fans wanted apparel. Students

felt the need to purchase textbooks, and the University Co-op was the most convenient place to get all of these items. This allowed the Co-op to donate significant amounts of money back to the University. However, after 2010, the Co-op revenues began to decline as the demand for textbooks slowed, competition for textbooks increased, and demand for Longhorn gear declined as athletic teams performed at subpar levels. Both the rise and fall of sales and donations can be directly tied to the strategy the University Co-op chose to utilize at those times.

The University Co-op's objectives are clear. The Co-op's mission is "to promote, enhance, and nurture the highest cultural and educational traditions of the University of Texas by creating a timeless sense of community among Longhorns past, present, and future." As a private, not-for-profit retailer, the University Co-op has no stakeholders to provide value for. Its superordinate goal is to donate as much money as possible back to the university in order to support the growth of its members. However, there have been relatively few goals in addition to the primary one of donations. The University Co-op has not employed a consistently effective strategy for the past thirty years.

In 1987, the business was failing and competition was extremely fierce. The University Co-op hired George Mitchell as President and CEO. This decision led to unprecedented growth and profit for the Co-op as Mr. Mitchell brought his retail expertise to Austin. The Co-op has been able to donate millions back to The University of Texas under Mitchell's guidance. With Mitchell at the helm, the University Co-op has expanded across the state with stores in most of Texas' major cities. Mr. Mitchell made it a point to value underappreciated groups on campus.

This is illustrated by the generous donations that The Co-op has made to support organizations such as Women's Athletics, the Fine Arts programs, and the University of Texas Fashion Group.

From 2000-2010 The University reached an all time high for enrollment, athletic teams experienced incredible success, and students were purchasing books at a high rate. During the good times of National Championship seasons and high demand for textbooks, the Co-op was able to leverage the success of The University of Texas. Its strategy building became secondary as it experienced high revenues during this time. When campus morale is high, it is easier to motivate your employees, and customers can't wait to come in the doors and spend money on Longhorn gear. However, these trends have changed. The Co-op certainly grew its brand and purpose during Mr. Mitchell's leadership, but its stagnant strategy proved to be insufficient from 2010-2016.

With the decline in demand for the University Co-op's products, the store has suffered roughly a 25% loss in revenue over the last 10 years. This means that The Co-op is unable to donate at the rate it used to. Students have chosen to buy books online at a cheaper price and no longer feel the need to buy the latest Longhorn gear. Times have become so desperate that the University Co-op had to sell properties and other assets just to pay off bills and debt.

The means, or resources, that the Co-op used to own have depleted dramatically. Financially, the balance sheet is much weaker and liabilities have increased. The employees have become less motivated to make a difference, especially at the lower levels. According to University of Texas at Austin Marketing

Professor, Alex Gabbi, “The most important employees are those at the point of sale, which are often the cashiers and lower-level employees”. The Co-op must find a way to motivate its part time cashiers and other point of sale people to improve the retention rate of customers. The change in campus climate has diminished the motivation level of its employees, both part time and full time.

The Co-op must find ways to maximize its resources during times of trouble when they arise. Its leadership team is re-establishing itself to the university and consumers across the state. The University Co-op hired a new CEO and President, Ms. Phifer in February 2016 following the retirement of George Mitchell. Ms. Phifer has more than 30 years of retail experience and is more than capable of leading the team towards a coherent, attainable strategy for the foreseeable future. She is excited and energized to make meaningful changes for the Co-op.

The Chairman of the Board of Directors for the Co-op, Dr. Michael Hasler, said, “The University Co-op’s recent strategy has relied on the success of athletics and high demand for textbooks. Ms. Phifer is excited to bring in a strategy that will thrive during good times, but will be sufficient for reaching revenue targets in bad years,”. The University Co-op needs a dramatic change to compete in this tumultuous climate for college bookstores. If it does not make necessary improvements over the next few years, it will become one of the many college bookstores to fall at the hands of bigger competitors like Amazon.

Literature Review

College Bookstores fall into a niche industry with very little up-to-date scholarly research. However, there is one article that can provide much value for The University Co-op as it hopes to update many of its practices in order to stay profitable. *Defining The College Store Of 2015* was written in 2010 by The National Association of College Stores in order to aid college stores plan for the changes occurring in the industry. The title of the article is misleading as this thesis was written 6 years after the article was published. However, this article recommends many practices that could benefit college bookstores nationwide, including The University Co-op.

Defining The College Store of 2015 describes three competency areas for college store operators and four required product and service areas. The business model success factors are referred to as the “3C’s”. The 3C’s are Customers, Capabilities, and Communication. Each of these is described in detail below.

The first C—and arguably the most important—is Customers. College stores must realize that students are the core customer and the primary reason they exist—not faculty, administrators or alumni. Success in the future requires understanding and responding to shifts in student fundamentals in general, as well as specific to your campus. You must be prepared to serve the needs of students with a new make-up – older, more ethnically diverse, employed, more commuters – as well as a new mindset – more results-driven, values-focused and empowered by their upbringing and technology.

The second C is Capabilities. College stores should already be proficient at the core capabilities of all good retailers – merchandise planning, inventory management, store operations, sales associate management, business planning and so on. But stores must also be building bench-strength in new capabilities, including e-commerce (via a robust transactional Web site, which should be in place already), e-marketing (via already being actively involved in social media such as Facebook, Twitter and other emerging sites), and m-commerce (by starting to develop plans for offering mobile commerce capabilities enabled by next generation ‘smartphone’ technology). College stores will also need to develop customer relationship management (CRM) capabilities that allow them to leverage the wealth of data they have on students across all aspects of campus life in order to tailor assortments, analyze and optimize marketing campaigns, and ultimately have a more intimate relationship with students.

The final C is Communications. College store survival requires ensuring that students know and value – even love – the college store, while stakeholders (especially the administration and faculty) know that students have this high level of connection to the store and clearly understand the value the store brings to campus life. College stores must earn students’ ‘love’ by being relevant to their specific, evolving needs and expectations – which requires moving from being ‘just a book store on campus’ to being a true ‘campus store’ that supports and is relevant to all aspects of campus life. Growing

share of campus life must be a top priority for college stores – followed by communicating this valuable role to key stakeholders.

With the foundation of a forward-focused business model laid out, the article then points to four major retail requirements that stores must achieve to thrive in the tumultuous landscape of the college bookstore industry. These retail requirements are known as the “4R’s” although each of these topics does not begin with the letter “R”.

The first R is Curriculum. College stores must preserve the core mission of the college store - course materials, but not necessarily the core category - textbooks. In 2015, course materials will come in many flavors and there won’t be a single dominant format. As such, college stores must plan for offers and curriculum-focused services that view all forms of curriculum (e.g., e-books, print on demand, user developed) as opportunities to better meet the core customer’s needs – instead of viewing new and emerging formats as competition for the textbooks offer.

Connections - the second R - are focused on building relevancy with students to generate customer loyalty. Connections will need to be carefully nurtured in 2015 by positioning the college store as the local authority for the needs, activities and values of the campus. It will be important to bring students into the planning process in order to develop a more relevant and faster-changing assortment, featuring co-created (with students) apparel and gifts, and greater leverage of local campus and community partnerships. Stores should also re-think their space and ‘offer’ to identify opportunities to host events

and gatherings that bring students into the store for non-purchasing reasons (e.g., concerts, art exhibits, book signings, group meetings, etc.), thus increasing the value of the store to campus life in its broadest sense.

The goal of Services (the third R) is to engage the campus community by capturing a larger share of campus life via a destination service offer. College stores will need to expand beyond products to feature an appropriate array of services (e.g., curriculum, technology, multimedia) for the campus supported by ‘guru-level’ customer service expertise in each area. College stores will also need to offer flex services during non-peak curriculum-selling seasons when floor space can be better utilized via service offers that are time and place specific to the campus community (e.g., resume services near year-end, flu shots in late fall, travel services before semester breaks, etc.). The final R is Frequency, and the objective of this requirement is to drive traffic to the store on a regular, repeat basis. As 2015 approaches, a key challenge for college stores is that store traffic will naturally taper off due to a multitude of factors:

- Fewer student campus visits (partially driven by more commuter students and distance learning/ more students taking classes online)
- Fewer “book buying” trips (as more course materials are purchased online or not bought at all)
- More competition (as mainstream retailers target college students/campuses)

If frequency is not aggressively addressed, store traffic will taper off by 2015 as student campus visits and “book buying” trips fall off while online and offline competition ramps up. As dictated by available store space, college-imposed constraints and other limiting factors, college stores must build as

many frequency drivers into their offer as is possible, including snacks and drinks, grab-and-go fresh grocery, a café or coffee bar, and gathering spaces for socializing and working. “Fresh” items are particularly important to build into the frequency offer, as they provide a point of relevant differentiation not easily replicated by non-college store competitors.

Methodology

The University Co-op is a private not-for-profit retailer with limited funds and resources. Unlike public companies, The Co-op is not required to disclose financial documents such as balance sheets, income statements, and cash flow statements to the general public. Private companies also produce less supplementary documents of the qualitative nature. Additionally, the college bookstore industry is a very niche market that has produced significantly little scholarly research than other types retail markets. Therefore, I have very little public data to rely on. However, I reviewed the available scholarly research and determined its viability for use in my study.

The University of Texas at Austin has an award-winning faculty with whom I intend to collaborate on key topics addressed in this study. I interviewed and used lecture notes of experts in both retail marketing and general strategy utilization to help me prove my hypotheses. I also plan to determine what the faculty believes the role of The University Co-op should be at The University of Texas. I need to understand what faculty members know about The Co-op, what they don't know about The Co-op, and how they express their feelings about The Co-op to their students. Many teachers recommend that students buy classroom materials from outlets other than The Co-op.

As I came to realize during my time serving on The Board of Directors for The University Co-op, The Co-op has a very dedicated staff. As mentioned in the background section of this paper, The University Co-op recently hired a brand new CEO, Ms. Phifer, to be the face of the company as it takes on the challenges that it

faces. CFO James Kielty has been at The University Co-op since 1993. Vice President of Marketing and Merchandising, Leslie Smith has been at The Co-op since 2014 and Vice President of Distribution, Kristen Huffman, has been there since 2006. Dr. Michael Hasler has served as The Chairman of The Board of Directors for The University Co-op since 2014. The Co-op recently lost Vice President of Operations, Jeff Halliburton, as he took a position with the executive staff for the North Carolina State University bookstore.

I interviewed most of the Co-op's executive staff to understand the changes it has made over the last 12 months and the major differences within the company before and after Ms. Phifer was hired. During previous interviews and statements, Ms. Phifer had shared plans to modernize the store and create many official financial budgeting procedures that The Co-op has recently lacked. She also planned to address the layout of the store as well as the design. Throughout her career in the bookstore industry, she has learned that outside of the products offered, the environment of the store is the most important factor that affects your consumer base. One of her pre-stated goals was to create a store that was enjoyable to be in and easy to navigate. Lastly, I would like to analyze both Ms. Phifer's leadership style and its effectiveness. I asked her straightforward questions about how she has led during her previous positions and her current role as CEO. I also asked other employees about her leadership style and how they believe it has affected The University Co-op's performance since she took over.

I asked Ms. Phifer the specific details on the goals she has achieved during her time at The Co-op and how she plans to achieve the rest of them during her

tenure. I would like to know how the other employees, from the C-suite to the checkout counter, have reacted to the changes that have been made over the last twelve months. My hypothesis is that Ms. Phifer's background and desire to work with each employee will have a positive reaction from the staff. The previous CEO, Mr. George Mitchell, made many of the final decisions. Ms. Phifer will still make many of the final decisions, but she has expressed the desire to rely heavily on the staff as they know their job better than anyone. My hypothesis is that the staff members will be happy to pursue their ideas and will cause them to work harder for The Co-op. In general, people want to see their ideas implemented, I believe Ms. Phifer will give the Co-op staff the abilities to see their ideas come to life.

Mr. James Kielty is the Chief Financial Officer for The University Co-op. Out of entire executive staff at The Co-op, he has been there the longest. Throughout his 23 years of experience, he has seen the Co-op achieve its peak in both revenue and profitability and its recent decrease in those areas. After my discussions with Mr. Kielty, I would like to have an understanding of The Co-op's financial status and important metrics. Mr. Kielty also has the most experience in the college bookstore market. He has attended many conferences nationwide and has the most insight into the operations of other college bookstores. I would like to know how The University Co-op stacks up to similar companies across the country. As Mr. Kielty spent the most time under previous CEO, George Mitchell, I would also like to hear his reactions to the way Ms. Phifer operates the business and the differences between these styles.. He is one of the few people who has seen Ms. Phifer operate with the rest of her staff on a day-to-day basis and I would like to know Mr. Kielty's thoughts

on her leadership style and how it has affected the rest of the employees and The Co-op's operations.

Leslie Smith serves as the Vice President of Marketing and Merchandising for The University Co-op. Before her time at The Co-op, she was Vice President of Global Marketing for Juicy Couture, a contemporary casualwear and dress-clothing brand based in Los Angeles, California. I asked her how the merchandising process works and how she determines the best products to keep in the store. I would like to know what the most popular items are in The University Co-op stores. I also asked how she approaches marketing The Co-op to consumers and how she attempts to grow the customer base. I would like to see how she works with the marketing team to get consumers in the store while maintaining her budget. Lastly, I want to hear Ms. Smith's thoughts on Ms. Phifer's effectiveness as a leader and how it compares to Mr. Mitchell's leadership style she previously experienced. I especially want to know if non-executive members of the Co-op team feel comfortable sharing their ideas for improving the store with the hopes of having their ideas implemented after approval from the executive team.

I also had many conversations with Dr. Michael Hasler throughout this process. Dr. Hasler serves as the Chairman of The Board of Directors for the University Co-operative Society and is a Senior Lecturer at the Red McCombs School of Business at The University of Texas at Austin where he teaches both graduate and undergraduate courses in the Information, Risk, and Operations Management department. He is also the Program Director for the MS program in Business Analytics and a fellow in the Supply Chain Management Center of Excellence. I

would like to utilize both his experience and position with The Board to learn about The Co-op's shortcomings with regards to supply chain management and it can improve in this area. I plan to ask Dr. Hasler to about the effectiveness of the new executive staff since Ms. Phifer took over as CEO and how she relays information to The Board of Directors. Lastly, I inquired about ways in which The Co-op can improve its operations and creative ways to bolster its relationship with the student body.

An important part in determining the role of the University Co-op on UT Austin's campus is to research the current reputation of The Co-op from its customers, especially students. I created a survey to determine what students know about the Co-op and give them an outlet to share their opinions. My hypothesis is that many students do not realize the true purpose of The University Co-op on campus. I limited the amount of questions I ask. I also tried to turn many qualitative questions into multiple choices. I did this for two reasons. The first reason is to save the time of the students volunteering to complete my survey. The second is to make sure I receive accurate data that can be easily analyzed through spreadsheet technology. I included optional free response questions at the end of the survey, in case any participant liked to share more of their experiences and provide me with more qualitative data. I advertised the survey through word of mouth, social media platforms, and ask teachers across campus to share it with their students.

Survey Questions

My goal for this survey is to learn a little bit more about the Co-op's customers. I would like to understand the demographics of the customers, some of

their shopping habits, and their overall opinion of the University Co-op. I plan to ask the following questions in my survey through Google Forms technology. I believe these questions, and their corresponding answer choices will be the most convenient way for the participant to answer and the most accurate way for me to analyze the data. The questions on the survey are in order as follows:

- Are you a student at The University of Texas at Austin or have been in the last five years.
 - Yes
 - No
- If you answered yes to the question above, what is your major?
 - Business
 - Liberal Arts
 - Communications
 - Education
 - Engineering
 - Natural Sciences
 - Architecture
 - Undergraduate Studies
 - Other
 - I have not been a student at The University of Texas in the last five years
- How do you Identify
 - Male
 - Female
 - Prefer Not to Say
 - Other
- For any given textbook available at multiple retailers, where are you most likely to buy that product?
 - The University Co-op
 - Amazon
 - Other
 - I have not been a student at The University of Texas in the last five years.
- Have you used Amazon Locker in Gregory Gymnasium?
 - Yes
 - No
 - I have not been a student at The University of Texas in the last five years.
- Have any of your teachers ever recommended that you purchase textbooks from an avenue other than the University Co-op (ex. Amazon)?

- Yes
 - No
 - I have not been a student at The University of Texas in the last five years.
- Did you know that the University Co-op is a not-for-profit organization?
 - Yes
 - No
- Did you know that The University Co-op has donated over \$25 million back to The University of Texas at Austin and other philanthropic causes since 2000?
 - Yes
 - No
- Do you believe the textbooks are priced fairly at The University Co-op?
 - Yes
 - No
- Do you prefer to buy Longhorn gear at The University Co-op or through other retailers?
 - University Co-op
 - Other
- How many times do you visit the Co-op a semester?
 - 0
 - 1-3
 - 4-6
 - More than 6
- How much money do you (and any non-student immediate family member) spend at The University Co-op each semester?
 - \$0
 - \$1-\$100
 - \$100-400
 - \$400-1,000
 - More than \$1,000
- Do you believe there should be college bookstores on campuses nationwide?
 - Yes
 - No
- Have you noticed any changes in the University Co-op stores in the last 12 months?
 - Yes
 - No
- If you noticed any changes, please list a few that you noticed (Free response).
- What is your overall opinion of the University Co-op (Free response)?
- In what ways can the University Co-op improve its operations (Free response)?
- If you prefer to have your opinions known to me and available for use in my paper, please state your name.

Findings

Ms. Phifer's Plan For The Co-op

During my first meeting with CEO Ms. Phifer in October 2016, we discussed the Fiscal Year 2017 Business Plan for the University Co-op. This plan is where the leadership of the Co-op discusses the brand definition of the Co-op, identifies many of the difficulties it faces, and how to address these difficulties effectively. The business plan includes The Co-op's mission statement, vision, target customers, key performance indicators, a SWOT (strengths, weaknesses, opportunities, and threats) analysis, current initiatives, future initiatives, short-term strategic priorities, and long-term strategic priorities. The plan is described in detail below.

MISSION STATEMENT

The mission of the University Co-operative Society is to promote, enhance, and nurture the highest cultural and educational traditions of The University of Texas by creating a timeless sense of community among Longhorns past, present and future.

OUR VISION

At the University Co-op, we want every person who comes through our doors to feel like they're part of the larger community. To create that connection and to foster an ongoing spirit of collaboration among customers, partners, professors, and alumni, we will continue to serve as a gathering place that celebrates diversity, transparency, ideas, and innovation. With local and national partnerships, and an

emphasis on emerging technology, we will consistently deliver memorable experiences and quality products that surprise and delight our customers, in-store and online. And as a prominent member of the community, we will also continue our century-long tradition of contributing to a variety of University programs, supporting the University's rich academic, cultural, and athletic heritage.

TARGET CUSTOMERS

- Direct co-operative beneficiaries (students, faculty, staff) and alumni.
- Visitors to Austin and The University of Texas.
- Longhorn fans across the country for online sales

KEY PERFORMANCE INDICATORS

- Meeting or exceeding our Financial Plan in the following areas - Sales, Gross Margin, Expenses (EBITDA)
- Cash Flow
- Employee Efficiency

STRENGTHS

- The Co-op brand and location
- Lot behind the main Co-op store for food trucks and events
- Lack of competition of Longhorn retailers
- Loyal, committed, and passionate staff
- Student hiring and ability to be a laboratory for students and faculty members
- Marketing strategy with focus on incoming freshman
- Official aggregator of course materials for the university
- Knowledgeable buyers
- Mitchell, Granoff, and Hamilton Awards for students and faculty
- Relationship with the university
- Acquire ownership of the main store building and parking garage

WEAKNESSES

- Customer Service
- Strategic financial planning, results and ability to gain credit
- Supply chain from manufacturer to customer
- Technology platforms Celerant and Sequoia
- Succession planning and development of talent
- Not-leveraging our giving to be able to do more
- Relationship with faculty

OPPORTUNITIES

- On campus sales representative for course material adoption and custom publishing
- Improving adoptions through better faculty understanding of course material economics
- Continued growth of game day color fashions
- Continued growth of Austin and Texas souvenir goods
- Develop “pop-up” model
 - The “pop-up” store will be able to travel to away football games and other popular events featuring The Longhorns across the country... This will lower expenses compared to having brick and mortar stores underperforming throughout the state

THREATS

- Amazon’s growth on campus
- 289c or University opening its own store on campus
- Continuing decline of textbook use by students and faculty
- Perception from students that The Co-op increases textbook prices to generate profits
- Licensing change and limitations on production development
- High labor costs

CURRENT INITIATIVES

- Refresh of main store - original flooring on first floor remains
- Integrating new store management structure throughout the organization
- Improving customer service through Manager on Duty coaching
- Improving the customer experience by growing “Co-op Theatre”
- Dashboard and budget creation with 9Gauge Partners
- Researching Celerant/Sequoia alternative NetSuite
- Improving inventory flow from manufacturer to customer in partnership with two supply chain interns

- Utilizing a consultant to become PCI (Payment Card Industry) compliant
- Implementing Outlook 365 for internal communication efficiency improvement
- Closing the Ft. Worth store
- Determining viability of the Co-op East Store
- Redesign of the Academic Floor to create a better student shopping experience
- Using talking points on Co-op not-for-profit model, laboratory potential, and textbook economics in faculty encounters
- Succession planning and development - situational leadership, finance and accounting for non-financial managers, ICBA and NACS (team-building) workshops already scheduled

FUTURE INITIATIVES

- Formalize internship program to be something sought after by students
- Relocate warehouse if lease is lost
- Move from PTO accrual to “use it or lose it” within the fiscal year to reduce benefit costs
- Employee contribution for health plans
- Consolidate pension plan and 403B retirement plans

STRATEGIC PRIORITIES (SHORT TERM)

- Generate earnings for donations
- Establish cash reserve
- Identify more efficient technology to replace Celerant/Sequoia
- Determine strategy satellite stores (non-Austin locations)

STRATEGIC PRIORITIES (LONG TERM)

- Replace Celerant/Sequoia with selected technology
- Determine viability of adding to parking garage to take advantage of West Campus bed growth and limited parking options
- Fully automate rebate program
- Attract additional 3rd party partners to compliment current offerings
 - Kendra Scott
 - Victoria's Secret
- Develop investment strategy to counter future business downturns

During this meeting, Ms. Phifer also outlined a Sales Plan. She believes that The University Co-op's success hinges on the success of the Main Store. The Main Store is located at 2246 Guadalupe St. just across the street from The University of

Texas at Austin. This is a great location as it is nestled in the center of “The Drag” (a common nickname for Guadalupe Street between 21st Street and 30th Street), which makes it easily accessible to students. She outlined the way to improve the Main Store’s sales in her Sales Plan, transcribed below.

- Create a Happier Staff
 - Improve the hiring process
 - Update the training process
 - Breakdown hypothetical silos to improve efficiency
 - Recognize and reward successful staff members
 - Provide special attention to new employees
 - Install a break room to improve employee satisfaction
- Improve the Customer Experience
 - Improve Customer service
 - Create a better mood within the store
 - Update the lighting
 - Play music that enhances the atmosphere
 - Ensure product knowledge from the point of sale employees
 - Provide more comfortable fitting rooms for customers
 - Make every employee an expert on the store and available products
 - Capture the sale even if an item is not currently in stock
 - Provide mapping within the store
- Right Product, Right Place, Right Time
 - Work with the Merchandising Team to offer a unique set of popular products
 - Ensure that popular items remain in stock at a higher rate
- Create Priority Standard Operating Procedures (SOP)
 - Create a more dynamic store structure, that is understood by all employees
 - Ensuring a cohesive environment between team members across all departments and on all floors
- Elevate Current Presentation
 - Improve the cleanliness of the store on all floors
 - Provide popular visuals for customers to look at while shopping
 - Murals
 - Paintings
 - Pictures

- Allow customers to draw on certain areas of the store
- Improve the structure of the academic floor
 - Ensure that students are able to navigate the academic floor with ease
 - Replace current structure to grow the amount of impulse purchases like notebooks, pens, pencils, and binders
- Improve environment of the academic floor
 - Improve the ceiling, tiling, and walls to create a more inviting area
 - Provide music and visuals to customers on this floor to create a better environment for student purchases

Ms. Phifer finished her first 12 months in February of 2017 and updated the Board of Directors on the accomplishments achieved and setbacks The Co-op has faced during her time as Chief Executive Officer. She discussed these items with me on March 29, 2017. She covered six main topics during her evaluation that she called the “Super Six”: Talent, Customer Service, Sales, Margins, Expenses, and UT Relations.

Ms. Phifer believes that The University Co-op has unbelievable talent at its disposal:

We are trying to hire as many students as possible. We believe that The University of Texas at Austin has some of the brightest minds in the country. We want them to have a desire to help The Co-op so we want to create an allegiance that students will feel to the stores. One way to do this is to put them to work. We like to have part time students working the registers. A creative idea that we have had is to have students working in the marketing, merchandising, and supply chain departments for two reasons. We want to give them a hands-on experience working with a retailer while taking advantage of the cheap labor and insights that they can provide us with.

She has attempted to change the culture within the staff to promote more open communication in detail:

We have put a major focus on listening to every employee's ideas and trying to provide helpful feedback. We have also put in tangible measures to promote open communication. We have biweekly leadership meetings and manager meetings. We try to promote each employee to have "one on one" conversations with supervisors as much as possible. Within the store, we have equipped employees with "walkie-talkies" to improve the time it takes us to assist customers. We also have promoted transparency by effectively having open door policies in which any employee can approach a supervisor with ideas and concerns.

Ms. Phifer has also been diligently working to improving the Customer Service within the stores. This was one of the biggest complaints she heard when interviewing customers as she arrived on campus. She outlined a few of the ways that she has worked with her staff to improve customer service inside the main store.

The Co-op now requires more than double the training and coaching previously required on how to interact with customers in the store. We have determined customer service standards for employees to meet every day. Our "WEGOYes" is an effort to make the sale using all positive measures possible. This is something we have put a lot of time into because we believe we can drastically improve point of sale interactions. We have developed line management systems for game days and also implemented a manger on duty

role. While employees are off duty we are working on putting in a break room to make sure they are comfortable during their brief time off. We hope that this will make employees work harder when they are on-duty.

Ms. Phifer cited many measures she has put in place to increase sales. She has refreshed the store by changing the placement of many items and improving the ease of navigation. She cites Ms. Smith on her ability to bring the right products into the store. The Co-op has leveraged partnerships since the licensing changes and improved the distribution center workflow based on supply chain principles. She noted that the improvement of the Co-op's supply chain and distribution comes directly from student input. Ms. Phifer has worked hard to improve the margins of The Co-op by focusing on better margin businesses. These include Texas and Austin souvenirs and women's team color fashion.

As detailed in the Financial Findings section of this paper, The Co-op desperately needs to decrease expenses in order to be profitable. Ms. Phifer detailed many of the things The Co-op has done to lower expenses during the 2017 Fiscal Year:

We have focused on implementing a formal budgeting process. The formalization of this practice will help the staff set reasonable goals to pursue. The Co-op has developed payroll goals and set new store hours to improve the efficiency of the store. It has engaged 9Gauge Partners to develop reporting tools (as discussed in the Financial Findings section). Finally, The Co-op has leased the former executive offices and relocated most of the executive staff to the fourth floor of the Main Store.

Lastly, Ms. Phifer described the ways in which she looked to improve the relationship with its neighbors across the street, The University of Texas at Austin:

The Co-op has partnered with the university during the licensing change and we have moved custom publishing into the main stores. We have implemented a “New Course Adoption Tool” to appeal to faculty members we don’t currently reach. To further this goal, we have hired a campus relation’s manager. We have had many positive meetings with important university leadership and administrators. We have also revamped the Hamilton, Mitchell, and Granoff achievement awards to highlight the generosity of The Co-op. The Co-op is very focused on using the Co-op as a laboratory for the university. We expect to receive more recognition and free advice as a result. Currently we have ten interns, five student brand ambassadors, four student projects, one faculty project, and two case studies currently included in different curriculums on campus.

Ms. Phifer summarized the impact of the “Super Six” goals:

- Company Culture is More Open and Positive
- Leadership is Working Together
- We Have Effectively Increased Transparency
- Customer Service has Improved
- There Is Decreased Tension Between Employees Based on Planning and Communication
- More Cross functional Partnerships
- We Have Improved Reviews on Google and Yelp
- Sales Are Up in Key Areas like non-Longhorn gear

Finally, Ms. Phifer outlined initiatives and opportunities for the next twelve months. She hopes The Co-op will work with more “store within store partners” after the success it has experienced over the last twelve months. She is working with

the rest of the staff to create a pop-up model that can bring in the revenues of a satellite store without the high yearly rental costs. She also hopes that the Co-op will continue the development of employees and improve the academic floor of The Main Store. More general goals include continuing to decrease operational expenses and employee turnover. She also hopes to improve upon the technology currently used by The Co-op and Staff and shut down each satellite store within the next 18 months.

During my meetings with Dr. Hasler, he discussed many creative ideas he believed would help The University Co-op improve its operations. His first point was to use the University Co-op as a “student laboratory”. Dr. Hasler currently has three student interns working to improve The University Co-op’s supply chain management. He believes that the studies will reveal millions of dollars that The Co-op can be saving by improving its distribution practices. The study also helps three individuals gain an inside view of The Co-op and provide them with incentives to see the store succeed. Dr. Hasler says that he “would like to see more students to work for course credit, traditional payment, or other creative methods of payment like free textbook rentals and discounts on the variety of other products offered by The Co-op.”

Dr. Hasler has also discussed many other avenues that The Co-op can take and has already taken to improve The Co-op’s relationship with the students, faculty and administrators at The University of Texas at Austin. First, Dr. Hasler raves about the work Ms. Phifer has done as CEO during her first twelve months on board. “She is a fresh face that administrators from the Main Building to The Athletic

Department want to work with. I have been approached by those in the athletic department saying that a retail section of Darrel K Royal Memorial Football Stadium becomes available in 2019 and they want The Co-op to fill that space. Just five years ago, the athletic department was doing all they could to keep us out of that same space”.

Dr. Hasler’s final recommendation was to expand upon the philanthropic donations that The Co-op distributes each year. “I’d like to work with a team to create scholarships in each college at The University of Texas. That way we could have a ‘Co-op Scholar’ in McCombs, Moody, etc. It could start small with just a \$2500 stipend and free textbook rentals each year for the student. The goal would be to grow the amount we are able to give and try to become as prestigious as The Forty Acres Scholarship from the Texas Exes.”

Survey Results

The best way to determine how students feel about The Co-op is to ask them directly. I reached out to more than 1,000 people through Facebook, e-mail, and word of mouth. I received 447 responses during the month that the survey was available. Of the 447 responses, 97.5% people are students at The University of Texas or were students in the last five years. 63.5% of the responses came from females, 35.3% of responses came from males, and 1.2% of those who responded did not disclose how they chose to identify. The colleges represented by the study are outlined on the following page:

- 33.8% business students
- 19.9% Liberal Arts Students
- 13.4% Communications Students
- 1.6% Undergraduate Studies Students
- 4.5% Education Students
- 5.4% Engineering Students
- 12.1% Natural Sciences Students
- 7% Students in other colleges
- 2% from those who were not students at the University of Texas at Austin in the last five years.

There is a disproportionately large percentage of students who took this from the McCombs School of Business and Liberal Arts, more than 53%. This is more than likely due to my affiliation with business students and liberal arts students through Plan II. However, this situation should not limit the authenticity of the data received through the survey.

According to the data, more than 92% of teachers make textbooks easily accessible at The University Co-op. However, more than 77% of teachers recommend that their students buy textbooks from an avenue other than the University Co-op (ex: Amazon) due to the perceived cost difference. 58% of students still prefer to use Amazon as their main method of purchasing and renting textbooks while 40% prefer to use the Co-op. The remaining 2% of responses prefer to use other outlets to purchase or rent classroom materials like textbooks. This could be due to the 72.3% of students who believe textbooks and other academic materials are priced unfairly. My survey shows that more than 70% of students have not used the Amazon Locker in Gregory Gymnasium during its first year in service. This data could be misleading as many of my friends and peers that took the survey do not

live on campus. The Amazon Locker aims to target students who live on campus or do not have a permanent address where they feel comfortable receiving packages.

Although most students do not buy textbooks from The Co-op, 81% of students prefer to buy Longhorn gear from it while only 19% prefer to use other retailers like Amazon, Target, and Dicks. The amount of times students visit the Co-op is broken down below:

- 3% of students do not visit the Co-op each semester
- 74% of students visit the Co-op 1-3 times per year
- 17% of students visit 4-6 times per year
- 6% of students visit more than 6 times per year

The amount of money spent by each student at The Co-op per semester is broken down below:

- 3.1% of students do not spend money at The Co-op
- 28% of students spend \$1-\$100 each semester at The Co-op
- 47.9% of students spend \$100-\$400 each semester at The Co-op
- 20.4% of students spend \$400-\$1,000 each semester at The Co-op
- .7% of students spend more than \$1,000 each semester at The Co-op.

Roughly 68% of the people that participated in my survey did not realize that The University Co-op is a not-for-profit company. More than 80% of those who responded did not realize that The Co-op has donated more than \$30 million back to the University of Texas at Austin and other philanthropic causes since the year 2000. Although the Co-op has invested tens of thousands in store renovation in the last 12 months, only 36.5% of those who responded noticed a change. Still, 92.4% of those who responded believe that there should be college bookstores on college campuses nationwide to adhere to the needs of the students. Although there is still

hope that The Co-op can mend its relationship with the student body, there is a clear disconnect between the students and The Co-op according to this study.

Overview of Financial Findings

One of the main initiatives for The Co-op has been to modernize the look of the main store. Chief Financial Officer, James Kielty has also noticed many changes to the store over the past few months. He had this to say about both the positive and negative things that The Co-op has experienced over the last twelve months:

The Co-op has seen many positive changes over the past twelve months.

Leslie (Smith) has done a great job with merchandising and the overall appearance of the store looks much better. Luckily, we still have a large amount of excitement in the athletics program and people are buying the products we have in the store. It is a cleaner store with better mapping and use of floor space. Our store reflects that of a more modern retail store.

However, we are still working out many staffing levels. We are trying to sort out departments and make sure everybody has a role in which they can accomplish the necessary tasks. This is definitely still a work in progress.

Another one of Ms. Phifer's main incentives was to create and implement a budgeting process. Mr. Kielty discussed this process and how he perceives its effectiveness to be in detail.

Recently we began using a service by 9Gauge, a technology-consulting firm, to help us create a formal process. Previously, every department had a budget that they must adhere to; there was just no formal process. Now we

use Adaptive Insights, a software tool from 9Gauge, to use as a budgeting and reporting tool, not an accounting tool. It had a \$40,000 initial cost and very little upkeep for annual costs. Budgeting tools like this are certainly very helpful, but we still have a ways to go getting used to this. The dashboard setup condenses everything that makes it easy to read.

The Co-op certainly has further areas for improvement. However, many of these areas require financial investments. I asked James what investments he would like to see the Co-op make to continue to improve the store and efficiencies.

One of the largest needs for the store is just an overall facelift. We would like to improve the ceiling and floor tiles on nearly every floor. The academic floor especially needs revamping. However, it would cost a lot of money. To do what we want to the academic floor would cost more than \$100,000. It would be about \$100,000 more to make all the improvements to the rest of the store. It is certainly a project we will pursue when the funds are there.

Mr. Kielty also offered many insights on how the store has changed over the past few years. A drop in sales has characterized the store over the past decade. The breakdown of the decline in revenue for The University Co-op was given to me from Mr. Kielty and is seen in Figure 2 below.

Figure 2

Revenue	2012	2013	2014	2015	2016
Net Sales (\$Millions)	33.6	32.7	32.2	30.7	30.0
Textbooks	12.1	11.9	11.6	11.3	11.0
Other Methods	21.5	20.8	20.6	19.4	19.0

These numbers do not show the full extent of the decline in revenue for The University Co-op. According to Mr. Kielty, revenue was more than \$40 million in the mid-late 2000's with textbooks being roughly \$17-\$18 million of that. After seeing the sharp decline of revenue from textbooks, I was curious to know if James believed there could ever be a Co-op that did not sell textbooks. As an expert on the college bookstore industry as a whole and The University Co-op's financials, he shared his thoughts on this matter:

I certainly could see a version of The Co-op that does not sell textbooks. More than 80% of the college bookstores in the country have changed their identity in some way because they no longer have the ability to sell textbooks in the traditional way that we do. They have become just a retail outlet for people to buy college gear and some class materials. Many schools are already charging a fee so when you take a class you automatically get your online textbook. These schools are removing the traditional textbook completely from the classroom. I could definitely see us being just an outlet for "orange wear" with some school supplies and cafes and such as well.

After hearing a bit about the college textbook market nationwide, I wanted to know more about comparable stores to The University Co-op. He shared some data with me to compare the University Co-op to stores about the same size. He shared some simplified income statements for bookstores at The University of Washington, The University of Oregon, Virginia Tech University, The University of Wisconsin, California State Long Beach University, Oregon State University, California State Fullerton University, The University of Kansas, and Fresno State University.

According to Mr. Kielty, “those are the stores that are most like us. They are independently run meaning they are not run by the university affiliate or Barnes and Noble or something like that”.

The comparison is shown in Figure 3 on the following page and was provided to me by Mr. Kielty.

Figure 3

Large Store Group Comparison of Net Income with Top Nine Stand Alone Stores Nationwide
Fiscal Year Ended June 30, 2016

	Co-op/Trust For-Profit Corp. Washington		Non-Profit Corporation Oregon		Association/Foundation Virginia Tech	
	Profit/Loss	%	Profit/Loss	%	Profit/Loss	%
Net Sales	\$37,813,781		\$31,382,520		\$23,060,262	
Cost of Sales	25,635,668	67.79%	20,101,932	64.05%	16,547,176	71.76%
Gross Margin	\$12,178,113	32.21%	\$11,280,588	35.95%	\$6,513,086	28.24%
Personnel Costs	9,142,770	24.18%	6,713,160	21.39%	4,082,430	17.70%
Occupancy Costs	1,783,279	4.72%	1,505,947	4.80%	1,085,656	4.71%
Other Operating Costs	4,057,490	10.73%	3,733,262	11.90%	1,900,755	8.24%
Total Operating Expenses	\$ 14,983,539	39.62%	\$ 11,952,369	38.09%	\$ 7,068,841	30.65%
Operating Income	(2,805,426)	-7.42%	(671,781)	-2.14%	(555,755)	-2.41%
Other Income	1,007,947	2.67%	868,811	2.77%	1,337,807	5.80%
Other Expenses	-	0.00%	276	0.00%	40,068	0.17%
Net Income Before Taxes	(1,797,479)	-4.75%	196,754	0.63%	741,984	3.22%

	Co-op/Trust For-Profit Corp. Wisconsin		Co-op/Trust Non-Profit Corp. Cal St./Long Beach		Co-op/Trust Non-Profit Corp. Oregon St.	
	Profit/Loss	%	Profit/Loss	%	Profit/Loss	%
Net Sales	\$19,787,094		\$19,053,027		\$18,172,018	
Cost of Sales	12,162,367	61.47%	11,704,489	61.43%	12,656,760	69.65%
Gross Margin	\$7,624,727	38.53%	\$7,348,538	38.57%	\$5,515,258	30.35%
Personnel Costs	4,137,625	20.91%	4,387,610	23.03%	2,932,505	16.14%
Occupancy Costs	1,570,080	7.93%	437,282	2.30%	656,131	3.61%
Other Operating Costs	2,379,724	12.03%	2,293,604	12.04%	1,686,013	9.28%
Total Operating Expenses	\$ 8,087,429	40.87%	\$ 7,118,496	37.36%	\$ 5,274,649	29.03%
Operating Income	(462,702)	-2.34%	230,042	1.21%	240,609	1.32%
Other Income	699,478	3.54%	642,845	3.37%	556,302	3.06%
Other Expenses	33,090	0.17%	1,318,373	6.92%	247,700	1.36%
Net Income Before Taxes	203,686	1.03%	(445,486)	-2.34%	549,211	3.02%

	Association/Foundation Cal St./Fullerton		Co-op/Trust Non-Profit Corp. Kansas		Association/Foundation Fresno St.	
	Profit/Loss	%	Profit/Loss	%	Profit/Loss	%
Net Sales	\$15,903,982		\$14,919,306		\$12,672,734	
Cost of Sales	11,646,053	73.23%	11,163,045	74.82%	9,434,346	74.45%
Gross Margin	\$4,257,929	26.77%	\$3,756,261	25.18%	\$3,238,388	25.55%
Personnel Costs	2,455,398	15.44%	2,524,605	16.92%	1,699,307	13.41%
Occupancy Costs	351,544	2.21%	6,517	0.04%	92,654	0.73%
Other Operating Costs	1,364,109	8.58%	1,440,643	9.66%	628,059	4.96%
Total Operating Expenses	\$ 4,171,051	26.23%	\$ 3,971,765	26.62%	\$ 2,420,020	19.10%
Operating Income	86,878	0.55%	(215,504)	-1.44%	818,368	6.46%
Other Income	591,055	3.72%	358,285	2.40%	361,203	2.85%
Other Expenses	-	0.00%	29,162	0.20%	-	0.00%
Net Income Before Taxes	677,933	4.26%	113,619	0.76%	1,179,571	9.31%

	Co-op/Trust Non-Profit Corp. University Co-op		Average of Other Stores	
	Profit/Loss	%	Profit/Loss	%
Net Sales	\$30,036,492		\$24,095,591	
Cost of Sales	18,122,421	60.33%	16,381,480	67.99%
Gross Margin	\$11,914,071	39.67%	\$7,714,111	32.01%
Personnel Costs	7,459,081	24.83%	4,759,426	19.75%
Occupancy Costs	2,819,706	9.39%	936,136	3.89%
Other Operating Costs	3,394,970	11.30%	2,435,457	10.11%
Total Operating Expenses	\$ 13,673,757	45.52%	\$ 8,131,019	33.74%
Operating Income	(1,759,686)	-5.86%	(416,908)	-1.73%
Other Income	1,818,768	6.06%	802,967	3.33%
Other Expenses	219,278	0.73%	208,584	0.87%
Net Income Before Taxes	(160,196)	-0.53%	177,475	0.74%

The figure on the previous page shows simplified data from each of the comparable companies' income statements. Mr. Kielty received and consolidated this information at a conference he attended in October 2016. Net Sales are the total amount of revenue produced by the store. Cost of Sales are the direct costs attributable to the production of the goods sold by a company. This includes the cost of the materials used in creating the good along with the direct labor costs used to produce the good. Gross margin is the Net Sales minus the Cost of Sales. Personnel costs are the costs of employees that are not directly involved with the creation of the product (CEO, CFO, etc.). Occupancy Costs are those costs related to occupying a space including; rent, real estate taxes, personal property taxes, insurance on building and contents, depreciation, and amortization expenses. Other Operating Costs are costs involved with operations that are not included in any of the previous categories. Operating income is the Gross Margin subtracted by the total amount of operating expenses. Other income is revenue received from sources not directly tied to general operations and other expenses are costs not directly tied to general operations. Net Income before taxes is the Operating income plus other income minus other expenses. The percentages right of the U.S. Dollar amounts are the percentage of that particular item over sales. The average of the comparable stores is shown at the bottom of the figure to the right of the statistics for The University Co-op.

As seen in the data, The University Co-op is the third largest store in terms of revenue. Although The Co-op is not the highest, its revenue mark is more than double that of the next Big 12 Conference School, The University of Kansas. The

University Co-op shows strong gross profit margins 39.67% compared to the average of the comparable stores 32.01%. This shows that The Co-op is doing an excellent job picking manufacturers and using the right materials. However, the other statistics show a much more grim reality. The Co-op as personnel costs of 24.85% of sales. This is more than 500 basis points higher than the comparable firm average. Occupancy costs are even more bearish. The Co-op's occupancy costs (9.39%) are almost two and a half times that of the comparable company average (3.89%) as a percentage of sales.

As shown in the figure above, The University Co-op does not "breakeven" in Net Income Before Taxes, meaning that it had a negative amount (of \$160,196) during the 2016 Fiscal Year. Only 22% of other stores nationwide of the comparative type do not breakeven. Most of the other stores do breakeven and the average Net Income Before Taxes is .74% of sales, or \$177,475. Due to the Co-op's high gross margin, the low net income number can be directly attributed to the indirect costs of goods like personnel and occupancy costs. Mr. Kielty has said "lowering these indirect costs have been a major goal for us this fiscal year. We expect these costs to be significantly lower in 2017.

Much of these extra costs can be attributed to The University Co-op satellite stores. Satellite stores are The Co-op's that are placed in major cities across Texas. Mr. Kielty touched on a few of the issues that come with having the satellite stores:

The success of the satellite stores is totally contingent on the performance of the athletic teams. We have had days where we have done about \$100 in revenue in some of these stores. That doesn't even cover turning the lights on

for that day. We have learned that we cannot sustain success using this business model. We are currently working on a plan to shut down those stores without catching too many fees for getting out of our leases. We would like to have the ability to reach our customers in these areas so we are working on some replacement ideas. One of the most popular ideas is to bring in a pop-up store that allows us to travel around and be there for big events like bowl games and OU weekend in Dallas, without being charged year-long rental costs.

Lastly, Mr. Kielty discussed some of the biggest goals he has for the Co-op over both the short and the long term:

The biggest goal I think we should have is increasing revenue. We have had our revenue decline for more than 6 straight fiscal years and I want that trend to stop. We also need to solidify our business structure and budgeting process. Thinking further ahead, we need to either stabilize the academic department or get rid of it all together. However, it is hard to stop selling textbooks because the university would get upset with us. We would take more negative steps in terms of licensing as opposed to the steps forward we need to be taking.

Marketing and Merchandising at The University Co-op

A main component of the retail business is getting people in the store, and getting them to buy things once they get there. Vice President of Marketing and Merchandising, Leslie Smith, is in charge of both of these aspects. First, I wanted to

know what kind of marketing tools The Co-op is currently using to bring customers into the stores.

The most popular avenues we use are e-mail, social media, and seasonal direct mailers. We mostly use e-mail. E-mail usually leads to the most purchases in the store. We can directly track it online and see redemptions on coupons within the stores. Social Media ties up the most resources in terms of marketing. We use a lot of time, cash, and labor while using social media. Many of our one-time promotions also cost a lot of money.

As a merchandising guru, Ms. Smith has a good idea of what merchandise will sell. Leslie said that these were the most popular items in The University Co-op stores on campus.

One of our most popular items is the Comfort Colors T-shirts for men and women in our Republic of Texas section. We also sell a lot of stainless steel double walled drink ware from Yeti and Tumbler. As I mentioned earlier, we have had great success with the Victoria's Secret Pink line especially among female students. Nicer brands of men's polo shirts like Peter Millar and Nike Golf have also proven to be popular products.

I have heard from Ms. Phifer that Ms. Smith has done a great job in updating the store and I wanted to get an idea of exactly what she has done over the last 12 months directly from the source:

We have developed a strategy to increase merchandise sales to offset the loss we have felt from textbook sales. We have built a Republic of Austin section, which is state of Texas gear and an Austin souvenir business. We have

improved our visual merchandising to make people really want to make the purchase instead of just looking at it. We have revamped our marketing and merchandising planning and budgeting process as part of larger the budgeting implementation process company-wide. We have rolled out a new licensed vendor business and launched the Victoria's Secret Pink campus program. We are focused on a year-round student business with new vendors, targeted assortment of products, direct outreach, and creative ways to improve our relationship with the students.

After hearing about all of the changes that Ms. Smith has made over the last year, I wanted to know what was on the agenda for future changes to improve the store on the merchandising and marketing front. Leslie shared the following updates that consumers could see very soon with me:

We will launch product lines with new vendors. We hope to see the same success that we have seen with The Victoria's Secret Pink line. Continued visual merchandising improvements are a big item for us. We want to continue to push for people to buy the product as opposed to just looking at it. Much of that comes from the environment the product sits in. We will try to increase the student workers in our department as a continued effort to use the Co-op as a "student laboratory". We will continue to increase the Republic of Austin assortment, as that has been an area of unexpected success for us. We will improve the school supplies section to improve impulse purchases on those. We will also try to innovate options in our

course materials to try to get the absolute most out of our textbooks revenue section.

The University Co-op has recently experienced trouble with its licensing agreements with The University of Texas at Austin. The Co-op's ability to sell Longhorn gear has decreased as a result of these agreements. It has brought in The Dallas Cowboys Licensing Group with the attempt of bringing up revenue in non-Longhorn gear products. Ms. Smith discussed some of the difficulties she has had to address following the change:

Our biggest challenge was our licensing change and rolling that out effectively. We have also right-sized our staff and dealt with lots of lingering programs that we have had to phase out or revitalize. We have made up for the lack of licensed merchandise options with state of Texas gear and team color items. It's a lot more work to develop this assortment and there are more risks because our vendor base is wider and we sell more items when we can use the Longhorn mark. We are working diligently to get back in good graces with The University of Texas to get some of these agreements back on track.

Leslie believes that many challenges lie ahead for The University Co-op in the foreseeable future:

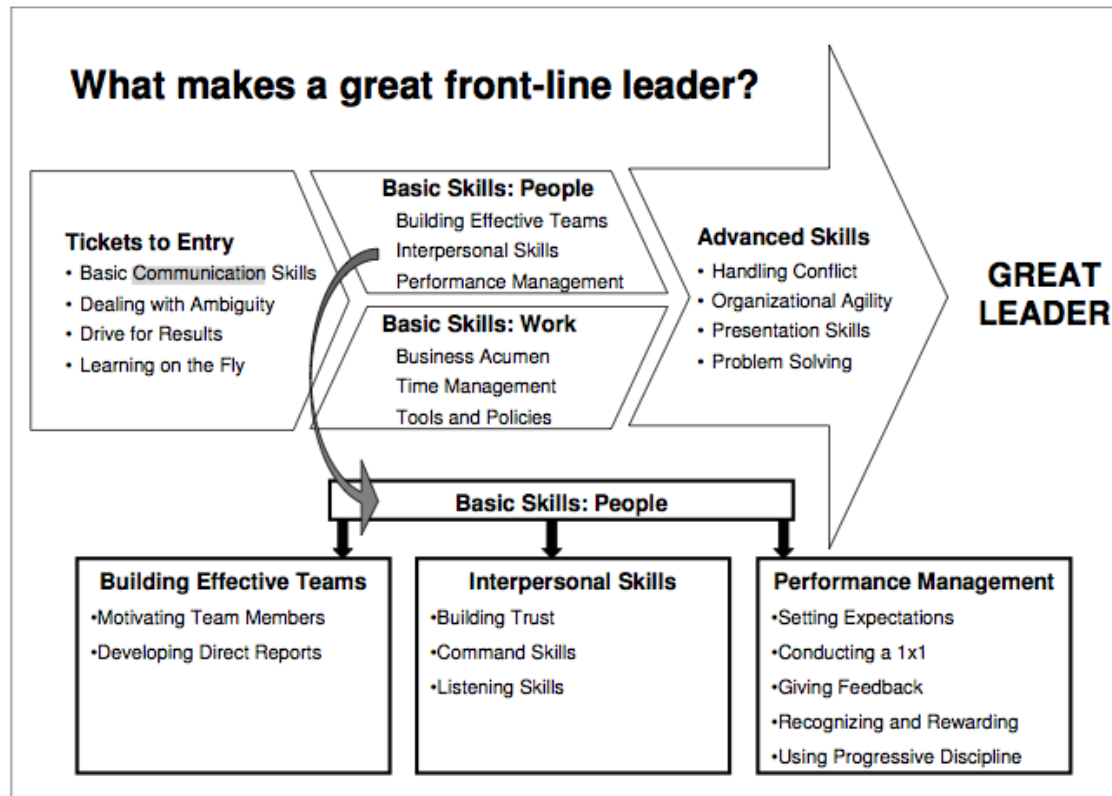
Next year, we're going to be dealing with trying to craft the right open to buy and inventory management plan, run a faster business, and focus on the best marketing programs to expand the business. We will have a heavy focus in inventory control in the merchandising department and new business

acquisition in the marketing department over the next six to twelve months. Thinking more long-term, my biggest overall goal for the next five years is to solidify an effective strategy for course materials and seasonal selling of non-Longhorn gear. We want to define a profitable point of view in the merchandising section and continue to assort to be as profitable as possible. On the marketing front, we really want to focus on meeting the customer where they are on the platform of their choosing. We want to effectively bring customers in the store without having to offer as much discounting of goods.

Ms. Phifer's Effectiveness as a Leader

Leadership is the action of leading a group of people or an organization. However, a company needs an effective leader if it wants to be successful in reaching its goals. In his paper, *Leadership Development in Context: A Descriptive Mixed Method Study of Leadership Development Activities During Significant Organizational Change*, Dr. Hasler outlines graphically what makes a great leader. This graph is shown in Figure 4 below.

Figure 4



Simon Sinek gives another important definition of leadership. Sinek is a British/American author, motivational speaker, marketing consultant, and leadership guru. He is the author of the 2009 best seller *Start With Why: How Great Leaders Inspire Everyone to Take Action*. Sinek has said “The courage of leadership is giving other the chance to succeed even though you bear the responsibility if they fail”. Ms. Phifer has consistently said that one of her goals as CEO has been to give her team members the chance to come up with ideas for improving The Co-op and implementing the ones that make sense. She wants to foster a healthy environment in which team members are not hesitant to approach their supervisors with ideas because they know they will be honest and supportive.

She has received good reviews from those that have worked with her during her first 12 months at The Co-op. Chairman of The Board of Directors, Dr. Michael Hasler had this to say regarding Ms. Phifer's Leadership Skills:

I have been amazed at the way Ms. Phifer has come in and taken charge so far as CEO. She knows what it takes to run a successful company and knows how to get The Co-op operating at an efficient level. She is clearly knowledgeable about the college bookstore business and has the business experience to run a company. One of the most impressive qualities I have seen from Ms. Phifer has been the way she works with others. She is eager to give others an opportunity to share their feelings and ideas, while keeping them focused on improving operations. Ms. Phifer also has top-notch communication and presentation skills. She regularly gives presentations to the Board of Directors effectively utilizing technology and other executive staff members in the room. These were not things I even thought to expect out of The Co-op's CEO after the previous one.

Dr. Hasler is not the only person who believes that Ms. Phifer has had a strong start in her role as CEO. VP of Marketing and Merchandising, Leslie Smith, seemed to share the same sentiment:

Ms. Phifer has been incredibly effective and has been remarkable at change management. I personally feel very empowered to make suggestions and have also learned a lot from her management style – she challenges me in a very positive way. I believe her presence, communication, and overall commitment to transparency have helped staff feel like their voices will be

heard, but I still think that any long time staffer is used to a very dictatorial management style and it will take more time to change some of those behaviors.

I honestly think Ms. Phifer has been a remarkably strong hire for the Co-op. She has done an incredible amount of work in a short time and has truly focused on trying to make this organization “work” – from senior leadership on down. Her commitment to financial health and process will help the Co-op for years, and she is a great leader. She knows how to get the most out of each of her employees.

Positive reactions like these show that Ms. Phifer has made a great impact on employees from the executive staff to part-time staff.

Conclusion

The University Co-op must improve its relationship with The University of Texas

According to the both quantitative and qualitative data, it is clear that The University Co-op must repair its relationship with its neighbors across the street, The University of Texas at Austin. The survey of students shows that The University Co-op is not effectively sharing its message with its main customers, the students and faculty on campus. Most students on campus do not realize that The University Co-op is a not-for-profit entity; much less the volume of donations The Co-op has made over the past few decades. Most faculty members make their course materials available at The Co-op, but recommend that they purchase these materials elsewhere. After hearing testimony from Co-op staff members about the UT administration's desire to work against The Co-op, it is clear that the new staff at The Co-op has lots of work to do. There are many ways the University Co-op can solve these issues.

Under Ms. Phifer, The University Co-op has already worked diligently to solve this disconnect. The executive staff of The Co-op has met with administrators in both the main building and the athletic department to mend previous issues the university had with The Co-op. Both The University of Texas at Austin and The Co-op have gone through major staff changes. With fresh faces on both sides of Guadalupe St., The Co-op looks to be in good graces with the university. The University Co-op has been invited to attend important dinners and school spirit events. Administrators have also been more willing to attend The Co-op's award dinners and other events in the last twelve months. Lastly, those in the athletic

department have notified The Co-op that a retail section of Darrel K Royal Memorial Football Stadium becomes available in 2019. The athletic department is more than willing to work with The Co-op on a deal that would allow it to fill the coveted space. This outlines the significant headway The Co-op has already made with the athletic department.

The University Co-op has recently hired a full-time faculty relation's manager to repair the relationship with the deans and professors on campus. She will reach out to faculty members across campus to discuss the products offered by The Co-op and why they should use The Co-op. She will reveal to the teachers that The Co-op rental prices compare closely to other avenues of textbook rentals and will offer custom course packets. She will remind applicable faculty members that The Co-op will supply textbooks that professors write so that they can receive royalties. Distinguished faculty members should also have the opportunity to have their published work displayed in a wall of honor on the academic floor. The Co-op, led by the new faculty relation's manager, should make all concerted efforts to make the faculty feel a desire to work with The Co-op. If the faculty members are connected, more students will have to feel connected based on the fact that they can only receive their course materials at The Co-op. However, The Co-op is still fighting an uphill battle with Amazon in the academic space.

Battling Amazon

Amazon has different reasons for being in the textbook space than most companies that sell academic materials. Amazon wants to be a one-stop shop for

every person on earth to fill his or her every need. Part of this goal includes the textbook market. The academic materials industry is an area of interest for Amazon because it attracts a very important demographic. This demographic is college students, both male and female. Amazon wants to capture this demographic because this group of people is about to be educated young adults with the ability to spend money without the keen eye of their parents staring down upon them. Young adults are also more likely to make impulse purchases, as many do not yet have families or other large financial responsibilities. This is why it offers its Amazon Prime service at a discounted rate for students. Amazon wants to get each college student in America hitched on its services, so they pay the switching costs to a full membership after graduation. This structure has proven to be part of Amazon's very successful plan. Amazon's stock price has improved from \$200 per share to \$900 per share from 2012-2017.

Amazon has a competitive advantage that is perhaps the most important factor for college students. Using Amazon is undoubtedly the cheapest way to purchase textbooks. The cheapest option is best for the students and for many parents supplying their children with funds. Amazon's sheer size and effective model enable them to offer the best prices, and it knows it. This model has forced countless college bookstores across the country to close their doors or solely operate as apparel providers. This highly competitive cost structure is the biggest threat that the University Co-op faces from Amazon.

The Co-op is unable to offer lower prices than Amazon. It does not have the resources to do so. The Co-op must offer the best rates possible, but also

differentiate itself in other ways. The Co-op's consumer base is essentially restricted to Longhorns . Although this may seem like a disadvantage, The Co-op leadership team should view this as an opportunity to show its dedication to providing Longhorns with not only products, but also a good experience. It has a prime opportunity to create a sense of community and family.

The University Co-op must be able to highlight what makes it special to The University of Texas and make it resonate with Longhorn Nation. The Co-op is a not-for-profit organization with all proceeds returning back to the university. Many UT students love the goals of not-for-profits and are willing to pay a premium for its products if they appreciate the cause. Surveys show that most students do not even realize that Co-op is a not-for-profit store, much less the magnitude of donations it has given back over the last decade or so. The Co-op also offers a rebate program where Longhorns can get 10% back from their purchases in the store. Still, more than two thirds of rebates remain unclaimed. The reputation of the Co-op must change from the store that rips students off on textbooks, to the store that fosters a healthy environment for all Longhorns.

The Co-op has started to put an emphasis on this strategy lately. It has used a much more aggressive marketing strategy. It has increased its online presence and signage throughout campus. Its advertising symbols highlight its continued support for UT student organizations, faculty, and athletics. The Co-op has also started to have social events in the courtyard behind the main store. At this venue, students are able to bond with each other, enjoy food trucks, take pictures with a replica of Bevo, and learn further about the Co-op and its vision.

The Co-op has recently updated its vision statement. It reads, “At the University Co-op, we want every person who comes through our doors to feel like they’re part of the larger UT community. To create that connection and to foster an ongoing spirit of collaboration among customers, partners, professors, and alumni, we will continue to serve as a unique gathering place that celebrates diversity, transparency, ideas and innovation. With local and national partnerships, and an emphasis on emerging technology, we will consistently deliver memorable experiences and quality products that surprise and delight our customers, in-store and online. And as a prominent member of the community, we will also continue our century-long tradition of contributing to a variety of University programs, supporting the University’s rich academic, cultural and athletic heritage”. This is a good sentiment, but it must be more than stated on a corner of its website. Its vision has to resonate with Longhorns of all ages, or its purpose on campus will remain unfulfilled.

Working with Students

As I previously mentioned, The University Co-op will never have the size or resources to work compete with Amazon on price-point. However, there are many other ways to differentiate itself to the students. Amazon does not bleed burnt orange, but The Co-op does. Amazon is a one of the largest companies in the world and a big part of “Corporate America”, not a not-for-profit; but the Co-op is. Amazon can not customize internships and scholarships for students on The Forty Acres, but

The Co-op can. The Co-op must work to advertise these differentiating factors to students on campus.

The Co-op must continue to expand its operations as a student laboratory facility. The Co-op is currently running many internships and case studies. These help create a sense of connection for students working with The Co-op. I felt this connection serving as a Board Member for The University Co-op. These programs also provide free insight into how students think and interact on campus. Finally, the Co-op can take advantage of the great young minds on The Forty Acres for free or at a cheap rate. Many students also feel a desire to shop at not-for-profit organizations for a higher price, especially in the liberal city of Austin. There is no better Longhorn affiliated not-for-profit than The University Co-op. The Co-op must advertise itself as the best not-for-profit Longhorns can shop with because all the proceeds will go back to helping The University in some way. If The Co-op can effectively market these distinguishing factors, it will see the same disconnect it currently feels with the students disappear.

The Co-op must also continue to expand the ways in which it gives back to the students. The Co-op already gives tens of thousands of dollars to student organizations and tens of thousands more as awards for superior research projects. However, The Co-op could greatly benefit from "The Co-op Scholar" Program. This program would recognize a student in each major college at The University of Texas at Austin for merit-based academic and extra-curricular success with financial compensation. If this program could gain traction, it would be a great way for The

Co-op to share its brand and would help create a sense of desire to shop at The Co-op among students.

Marketing and Merchandising Recommendations

Ms. Smith has worked diligently to provide high margin products that are a hit with customers. The Co-op undoubtedly suffered from the loss of many licensing agreements with The University of Texas in 2015, but has bounced back with the success of new products like the Comfort Colors T-shirts, the Republic of Texas garments, Victoria's Secret Pink line, and nicer polo shirts from Peter Millar and Nike Golf. Leslie recognizes the importance of branding and does everything she can to make the customer recognize the item and pull it from the rack. She has also worked to effectively market the Co-op's message to its customers. The marketing department has overhauled its social media outlets, e-mail campaigns, and seasonal direct mailers.

Ms. Smith must continue to work with vendors to provide more products like the Victoria's Secret Pink line. Many female shoppers rave about The Victoria's Secret Pink line and clamor for similar products. She will also continue to lead the marketing team to effectively advertise the products and appeal of the Co-op without discounting products. Many of the successful e-mail campaigns currently involve discounting products. Ms. Smith understands that this is not a successful long-term strategy and is working to find ways to keep customers buying from the store without incentives like discounts, and of course, staying in budget.

Financial Recommendations

The University Co-op has suffered financially from declining revenues and high levels of indirect expenses. The University Co-op had an industry leading profit margin at 39.7% in 2016 and management expects that number to grow to 42% for the 2017 fiscal year. This is due to the merchandising team purchasing more products that provide better profit margins, and improvement of distribution channels. However, The Co-op can still improve its method of product distribution. There are currently supply chain students working with The Co-op with the goal of saving \$1 million in distribution costs.

The Co-op is still experiencing negative operating income and final net income due to indirect expenses. The Co-op's Personnel Costs, Occupancy Costs, and Other Operating Costs all exceed industry averages. Many of these costs can be attributable to the poor performance of the satellite stores across Texas. The Co-op can expect to see these costs decrease as the satellite stores shut down. The management team has an 18-month plan to shut down all of the satellite stores in a way that will not further hurt The Co-op financially. However, there is still revenue to be earned in these cities across Texas. The Co-op should continue to pursue a pop-up model that will allow it to visit these cities cheaply and with strategic timing to capture as much revenue possible while minimizing costs. The Co-op should experiment with short-term rental agreements, traveling booths, and other creative avenues for reaching these cities for bowl games, OU weekend, and large events. If it can secure a successful pop-up model, The Co-op will benefit greatly from the

incremental revenues without the burden of large rental and other operational costs.

In order to create a sense of transparency and accountability, Ms. Phifer created an official budgeting process for The Co-op. Many employees are still adapting to the official process of creating and sticking to a budget, but most agree that it is a necessary procedure. The budgeting software, Adaptive Insights from 9Gauge, required to run this initiative cost \$40,000 initially. However, there are very few annual costs for upkeep, and the new process will encourage employees to beat their budget. Ms. Phifer has also discussed providing incentives for staying within and beating budget.

Determining the Fate of the Academic Section

The University Co-op has suffered largely from the decline of textbooks sales. Textbook sales have declined due to increased competition from major players like Amazon and the gradual abandonment of traditional textbooks in the classroom. The University Co-op has two decision alternatives. It can choose to continue selling academic materials, or it can discontinue this part of its operations and open up more retail or creative space. Selling academic materials allows The Co-op to be a full-service provider to students. The University of Texas likes this feature about The Co-op, although it provides many negative margins. By eliminating the academic section, its financial status will undoubtedly improve if the Co-op can replace the space with popular items or lease it to other vendors. However, this will

upset the university and could cause further removal of licensing arrangements. The Co-op will also lose its status as a 501 (c)(3) not-for-profit organization.

I recommend that The Co-op continue to provide academic materials to students at The University of Texas at Austin. As *Defining The College Store of 2015* states, “College stores must preserve the core mission of the college store, course materials”. The Co-op should offer not only textbooks, but also e-books, print on demand, and other avenues that may prove popular in the coming years. However, while the Co-op is not selling or buying back course materials, the academic space should be flexible enough to transform into a brand new environment.

During the months of January and August, the University Co-op will sell academic materials as usual. During the ten other months of the year, the Co-op should find a way to transform the space to drive traffic into the store. The Co-op should do one or more of the following when the bookshelves are unused during the majority of the year. The Co-op could install a convenience grab-and-go fresh grocery. It could also lease out a space for a coffee shop booth like Starbucks or Dunkin Donuts. Many other stores have provided space for beauty, personal care, and over the counter medicine. Lastly, The Co-op could provide both collaborative and private work space that could also serve as a gathering space for eating, studying, socializing, and more. These creative measures will provide more revenue drivers for The University Co-op, will get more customers in the store, and will help serve the desire to become a gathering place for students across campus.

Effective Leadership at The University Co-op

Having a strong leader at the helm is imperative to a firm's ability to execute an effective strategy. The University Co-op has two great leaders to guide it through this difficult period. Under its previous CEO, George Mitchell, the University Co-op had a stagnant strategy that relied heavily on the performance of the athletic teams to sustain success in the stores. The stores were unfit to handle the decline in textbook sales combined with the poor performance of the revenue driving teams at University of Texas at Austin (Football and Basketball). Mr. Mitchell led the stores through a meteoric rise during the 2000's. However with the success of the athletic programs, this cannot be completely attributed to Mr. Mitchell. He was unable to handle the issues that came along with the 2010's. Dr. Hasler and the rest of the board selected Ms. Phifer to take over as CEO in February 2016. This looks to be a great hire for The University Co-op.

Ms. Phifer has received raving reviews from the rest of her staff and Dr. Hasler. She has many of the qualities that are desired in a leader. Ms. Phifer has fantastic communication skills and effectively utilizes technology during presentations. After spending decades in the retail industry, she has the business knowledge necessary to tackle the issues The Co-op will continue to face for the foreseeable future. She has the interpersonal skills of building trust, commanding the room when necessary, and listening skills to effectively lead her team. She also realizes the importance of effective teamwork. She has led the executive staff through multiple team-building and leadership workshops. This has undoubtedly played a large part in The Co-op's resurgence during the 2017 fiscal year.

Both Ms. Phifer and Dr. Hasler have the most important quality that leaders can have. Both have put the rest of their team in the best position for them to succeed. Dr. Hasler effectively delegates responsibilities during Board Meetings and other important events. He has a knack for recognizing talents and weaknesses and puts each member in a role that suits his or her talents. Ms. Phifer does the same thing with her staff. She has the courage to give others the chance to succeed even though she bears the responsibility of getting this done. As leadership guru Simon Sinek says, this is one of the most important traits of a leader in the 21st century. The traits from these two individuals will undoubtedly play a large part in The Co-op's resurgence.

Final Conclusions

The University Co-op must continue to improve upon the changes it has made recently to combat the ever-growing threat of Amazon taking over market share at the University of Texas at Austin. The rise of Amazon has been a major source for significant declines in The Co-op's revenues over the last decade. With the Amazon Locker new to campus, this threat is as imposing as it has ever been. However, there are many ways in which The Co-op can improve its operations and return to profitability. The University Co-op must continue to improve upon its relationship with The University of Texas at Austin. The students, faculty, and administrators do not realize the full value that The University Co-op provides to the university. The student laboratories, scholarships, and not-for-profit pull will help The Co-op distinguish itself from Amazon and other competitors. The

marketing and merchandising staff will work to get customers in the store and purchasing products without steep discounts. By shutting down satellite stores, creating a successful pop-up model, transforming the academic section during most of the year, and improving operating costs, The Co-op will be primed for industry leading financial success. With a strong executive staff that understands the right ways to utilize its limited means, The University Co-op is primed to reach its objectives to retake its position as the premier retailer for Longhorns and continue donating millions to improve The University of Texas at Austin.

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BIOGRAPHY



Jake Levy Schwartz was born in Waco, Texas on May 30, 1995, and graduated from Vanguard College Preparatory School in 2013. He enrolled in The McCombs School of Business and The Plan II Honors program at The University of Texas at Austin in the fall of 2013. In college, Jake was a member of Texas Cowboys, Undergraduate Business Council, and served as a Student Board Member for The University Co-op. He has been on The Dean's Honors List seven semesters and was recognized as a StandoUT student by the Cactus Yearbook in 2017. After graduation, Jake will work as a Business Analyst at Deloitte Consulting in Dallas, Texas.